

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Market Structure Branch**

**RESOLUTION T-16617
December 11, 2001**

R E S O L U T I O N

RESOLUTION T-16617. ROSEVILLE TELEPHONE COMPANY. (U-1015).
ORDER ACCEPTING, SUBJECT TO ANY ADJUSTMENTS RESULTING
FROM OII 01-04-026, ROSEVILLE TELEPHONE COMPANY'S 2000
SHARABLE EARNINGS ADVICE LETTER FILING IN COMPLIANCE
WITH DECISION 96-12-074.

BY ADVICE LETTER NO. 627 FILED ON September 27, 2001.

SUMMARY

This Resolution accepts Roseville Telephone Company's (Roseville) 2000 Sharable Earnings advice letter filing subject to any corrections or adjustments that may be adopted by the Commission as a result of OII 01-04-026.

BACKGROUND

New Regulatory Framework (NRF)

In Decision (D.) 96-12-074, we adopted an incentive-based form of regulation for Roseville Telephone Company (Roseville) that was based on the NRF that was previously adopted for GTEC California Incorporated (GTEC) and Pacific Bell (Pacific). In Ordering Paragraph (O.P) 7 of D.96-12-074, we ordered that:

“Regulation of Roseville's operations shall follow the principles of the new regulatory framework (NRF) established in D.89-10-031 (33 CPUC2d 43), D.94-06-011 (55 CPUC2d 1), D.94-09-065 (56 CPUC2d 117), D95-12-052, and D.96-05-036, and service re-categorization consistent with D.96-03-020, subject to the following differences or clarifications. . . .Earnings between the benchmark and ceiling rates of return shall be shared equally between shareholders and ratepayers, with earnings above the ceiling rate of return returned to ratepayers. . . .The “I minus X’ (inflation minus productivity plus stretch) portion of the price cap formula is suspended until a final decision is issued in the Commission's review of Roseville's NRF. . . .”

ROSEVILLE'S 2000 SHARABLE EARNINGS FILING

Decision (D.) 96-12-074 requires that Roseville file a Sharable Earnings advice letter on April 1 of each year for the purpose of reporting its actual rate of return, and the market-based, benchmark, ceiling, and floor rates of return last found reasonable. Roseville filed its 2000 Sharable Earnings advice letter on September 27, 2001. On March 20, Roseville sent a letter to the Commission's Executive Director requesting an extension of time to file the year 2000 Sharable Earnings advice letter. D. 01-06-077 required that adjustments be reflected in future years' sharable earnings filings beginning with the year 2000. Roseville asked for an extension of time that was 90 days after the decision became effective, which was on June 28, 2001. Roseville was granted the extension of time. Roseville filed Advice Letter No. 627 in compliance with the granted extension.

Roseville reported an intrastate rate of return (ROR) for the year 2000 of 11.26%. Other references reported in Roseville's filing included the following rates of return:

| | |
|--------------|--------|
| Market-Based | 10.00% |
| Benchmark | 11.50% |
| Earnings Cap | 15.00% |

NOTICE/PROTESTS

Roseville states that a copy of Advice Letter No. 627 had been mailed to competing and adjacent utilities and/or other utilities and interested parties as requested. Notice of Advice Letter No. 627 was noticed in the Commission's Daily Calendar of October 10, 2001.

The Commission's Office of Ratepayer Advocates (ORA) filed a timely protest to this advice letter on October 18, 2001. ORA indicated that the Commission is currently investigating the revenue requirement of Roseville in Order Instituting Investigation (OII) 01-04-026. The investigation was opened in response to address issues relating to EAS arrangements between Pacific and Roseville. ORA asserts that it is premature for the Commission to evaluate Advice Letter No. 627 before ORA completes its audit report and the decision is issued in Order Instituting Investigation (OII) 01-04-026.

Roseville filed a timely response to ORA's protest on October 29, 2001. Roseville contends that ORA's protest identifies no deficiency in Roseville's Advice Letter filing. protest should be denied.

DISCUSSION

Pursuant to Decision 96-12-074, Ordering Paragraph 7, Roseville's earnings between the benchmark and ceiling rates of return shall be shared equally between the shareholders and ratepayers. Earnings above the ceiling rate of return shall be returned 100% to the ratepayers. D. 96-12-074 also adopted an overall market rate of return for Roseville of 10%, with the benchmark rate of return being 150 basis points above the market rate of return. Roseville's benchmark rate of return applicable to determination of 2000 sharable earnings is 11.5%. Roseville filed Advice Letter No. 627 reporting an intrastate rate of return of 11.26% for the twelve months ending December 31, 2000. Roseville showed that its intrastate rate of return for the period is 11.26%. Therefore, Roseville's reported 2000 earnings are not subject to sharing.

On October 18, 2001, ORA filed a timely protest stating that it would be premature for the Commission to evaluate Advice Letter No. 627 before ORA completes its audit report and the decision is issued in OII 01-04-026. ORA indicated that the Commission is currently investigating the revenue requirements of RTC in OII 01-04-026. The OII states that,

“ORA needs to be able to audit Roseville's books in a timely manner in order to obtain the information necessary to prepare its case. At a minimum, the audit should include recorded data for 2000 and for the first eight months of 2001.”
(See page 5, I. 01-04-026)

ORA's audit of Roseville is currently underway. As a part of the audit, ORA will be looking into whether Roseville is in compliance with the accounting adjustments adopted by the Commission for Roseville in D. 01-06-077. According to the schedule outlined by the Commission in OII 01-04-026, ORA's audit report will be issued in April 2002. The Commission anticipates issuing its decision in January 2003.

For the above reasons, ORA recommends that the Commission reject Roseville's Advice Letter No. 627 because it is premature to determine the reasonableness of the computation of 2000 sharable earnings. Alternatively, should the Commission accept the advice letter filing, ORA recommends that Roseville should be required to amend its 2000 sharable earnings to reflect the Commission's findings and conclusion resulting from OII 01-04-026.

On October 29, 2001, Roseville responded to ORA's protest stating that ORA's protest identifies no deficiency in Roseville's advice letter filing. Roseville indicated that it filed its sharable earnings advice letter in compliance with the specific requirements of Ordering Paragraph 7 of D. 96-12-074. Also, OII 01-04-026 did not suspend the requirement that Roseville make its sharable earnings filing as scheduled. Furthermore, the mere pendency of OII 01-04-026 does not constitute a deficiency in Roseville's

Advice Letter No. 627. Accordingly, the Commission should not reject the filing as deficient or improper.

We agree with Roseville that the advice letter was filed in compliance with existing Commission orders. However, as ORA indicated, the Commission is currently investigating the revenue requirement of Roseville in OII 01-04-026. It is possible that the outcome of the Commission's examination of Roseville's revenue requirement could have an effect on the year 2000 reported intrastate rate or return. We shall therefore accept Roseville's year 2000 sharable earnings Advice Letter No. 629 subject to any corrections or adjustments that may be adopted by the Commission as a result of OII 01-04-026.

COMMENTS ON DRAFT RESOLUTION

The draft resolution was mailed to parties in accordance with Public Utilities Code Section 311(g)(1). Comments were filed on November 19, 2001 by ORA. No reply comments were filed.

ORA made comments stating that the audit of Roseville is currently underway. As a part of its audit, ORA will review whether or not Roseville is in compliance with the accounting adjustments adopted in D. 01-06-077. According to the schedule outlined by the Commission in OII 01-04-026, ORA's audit report will be issued in April 2002. The Commission anticipates issuing its decision in January 2003. For this reason, ORA commented that it is premature to make a final determination of the reasonableness of the computation of 2000 sharable earnings. Therefore, ORA agrees with the resolution that Roseville's Advice Letter No. 627 should be accepted subject to any corrections or adjustments that may be adopted by the Commission as a result of OII 01-04-026.

FINDINGS

- 1) Advice Letter No. 627 was filed in a timely manner.
- 2) Roseville Telephone Company (Roseville) reports that for the year 2000 they earned an intrastate Rate of Return (ROR) of 11.26%, which is below the 11.5% benchmark.
- 3) The reference RORs are as follows:
 - Market-Based: 10%
 - Benchmark: 11.50% (+ 150 basis points)
 - Earnings Cap: 15%
- 4) Roseville's reported rate of return indicates that its 2000 earnings are not subject to sharing.
- 5) A timely protest to this advice letter was filed by ORA.

- 6) The Commission is investigating the revenue requirements of Roseville in OII 01-04-026.
- 7) The Commission may adopt corrections or adjustments in OII 01-04-026 that may affect Roseville's reported rate of return for the year 2000.

THEREFORE IT IS ORDERED THAT:

1. Roseville's Sharable Earnings advice letter for the year 2000 shall be accepted subject to any correction or adjustments which may be appropriate as a result of OII 01-04-026.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 11, 2001. The following Commissioners approved it:

/s/ WESLEY M. FRANKLIN

WESLEY M. FRANKLIN
Executive Director

LORETTA M. LYNCH
President

HENRY M. DUQUE

RICHARD A. BILAS

CARL W. WOOD

GEOFFREY F. BROWN

Commissioners